

Message Text

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ACTION EB-07

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 1839

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: EINV, EFIN, PK

SUBJ: OPIC LOANS

REF: KARACHI 1868

1. REFTTEL, WHICH WE ARE REPEATING TO WASHINGTON AND LAHORE, GIVES THE LATEST WRINKLE IN OUR EFFORTS TO GET A FAVORABLE GOP DECISION ON THE TWO PROPOSED OPIC LOANS TO PREMIER TOBACCO AND RAFHAN MAIZE: THE GOVERNOR OF THE STATE BANK IS EVIDENTLY CONCERNED ABOUT THE IMPACT OF THESE LOANS ON PAKISTAN'S COMPLIANCE WITH THE IMF CREDIT CEILINGS. IN THIS CONNECTION, HE IS CONCERNED ABOUT WHICH OF THE US-OWNED RUPEE BANK ACCOUNTS THE LOANS WOULD BE DISBURSED FROM.

2. OUR IMPRESSION IS THAT THE "DORMANT" PL 480 ACCOUNTS HE REFERS TO ARE THE "OLD PL 480 ACCOUNT" AND THE "PL 480 INTEREST BEARING ACCOUNTS" IN THE STATE BANK OF PAKISTAN. THE "COMMERCIAL ACCOUNTS", AS FAR AS WE CAN DETERMINE, PROBABLY REFER TO (1) TIME DEPOSITS IN THE FOREIGN BANKS IN PAKISTAN (AMERICAN EXPRESS, BANK OF AMERICA KARACHI AND LAHORE, FNCB, AND NATIONAL AND LIMITED OFFICIAL USE

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GRINDLAY'S) AND (2) THE USDO'S CHECKING ACCOUNT AT

AMERICAN EXPRESS.

3. ORDINARILY, THE USDO USES THE AMERICAN EXPRESS CHECKING ACCOUNT FOR ALL DISBURSEMENTS EXCEPT MANDATORY CONVERSIONS OF PL 480 REFLows. THESE CONVERSIONS ARE MADE OUT OF THE PL 480 ACCOUNTS DESCRIBED ABOVE, AND ARE THE ONLY PURPOSE FOR WHICH THOSE ACCOUNTS ARE NORMALLY USED. THE AMERICAN EXPRESS CHECKING ACCOUNT, IN TURN, IS REPLENISHED AS THE NEED ARISES FROM ANOTHER ACCOUNT WITH THE STATE BANK, THE "USDO ACCOUNT". THIS "USDO ACCOUNT" AT THE STATE BANK IS WHERE NEW RUPEE REPAYMENTS ARE DEPOSITED. ABOUT TWO-THIRDS OF USG RUPEE HOLDINGS ARE IN THAT ACCOUNT.

4. ORDINARILY, THE TIME DEPOSITS IN THE FOREIGN BANKS ARE SIMPLY LEFT THERE, WITH INTEREST ACCUMULATING. THE GOP HAS IN THE PAST PUT PRESSURE ON THE USG TO TRANSFER THESE FUNDS TO THE STATE BANK, AND WE HAVE RESISTED SUCH A MOVE.

5. IT IS NOT ENTIRELY CLEAR TO US WHETHER THE GOVERNOR'S REFERENCE TO "COMMERCIAL PL 480 DEPOSITS" REFERRED TO ALL USG RUPEE ACCOUNTS IN FOREIGN BANKS, TO THE AMERICAN EXPRESS CHECKING ACCOUNT, OR TO THE TIME DEPOSITS ONLY. OUR EXPECTATION HERE WOULD BE THAT IF THESE OPIC RUPEE LOANS WERE MADE, DISBURSEMENTS FOR THEM WOULD COME FROM THE "USDO ACCOUNT" AT THE STATE BANK. WE WOULD APPRECIATE DEPARTMENT AND REASURY CONFIRMING THIS UNDERSTANDING. IF THIS IS THE CASE, NEITHER THE "DORMANT" PL 480 ACCOUNTS NOR THE "COMMERCIAL" ACCOUNTS IN FOREIGN BANKS WOULD BE INVOLVED, BUT THE ACCOUNT IN QUESTION WOULD BE ONE THAT IS IN CURRENT USE.

6. THE DELAY IN THE AVAILABILITY OF MONETARY STATISTICS MAKES IT DIFFICULT TO COMMENT ON THE GOVERNOR'S CONCERN ABOUT THE IMF CREDIT CEILING. DURING FY 1974/75, PAKISTAN EXCEEDED THE SUBCEILING FOR CREDIT TO THE GOVERNMENT, BUT WAS ABLE TO HOLD OVERALL CREDIT WITHIN THE LIMITS AGREED UPON WITH THE IMF. THE PROGRA PROPOSED FOR THIS FISCAL YEAR UNDER THE JULY 30 REVIEW AND MODIFICATION OF THE LIMITED OFFICIAL USE

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STANDBY CALLS FOR CONTINUING LAST YEAR'S FAIRLY RESTRICTIVE CREDIT POLICY. HOWEVER, THE AMOUNTS PROPOSED FOR THE TWO OPIC LOANS ARE NOT LARGE IN RELATION TO THE CREDIT CEILING; THE INVESTMENT CLIMATE, AS WE HAVE NOTED ELSEWHERE, IS CAUTIOUS, AND WHILE THERE ARE A NUMBER OF GOP PROJECTS IN PREPARATION WHICH WILL REQUIRE ENORMOUS AMOUNTS OF LOCAL CREDITS, WE DO NOT EXPECT THAT ANY SUBSTANTIAL DISBURSEMENTS ON THESE PROJECTS WILL BE MADE

THIS YEAR. IN ANY CASE, IF WE ARE CORRECT IN ASSUMING
THAT THESE OPIC LOANS, IF MADE, WOULD NOT COME FROM THE
"DORMANT" PL 480 ACCOUNTS, THIS MIGHT MEET SOME OF
THE GOVERNOR'S CONCERN ABOUT THE IMF CREDIT CEILING.

7. WE CONTINUE TO BELIEVE, HOWEVER, THAT THE REAL PROBLEM
WITH THE OPIC LOANS IS THE RESULTANT INCREASE IN US RUPEE
HOLDINGS NOTED IN OUR DISCUSSIONS WITH THE FINANCE MINISTRY.

7. PLEASE ADVISE, PER PARA 5, AS TO WHICH ACCOUNT OPIC
FUNDS WOULD BE DRAWN FROM.
BYROADE

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